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SENATE

{ REPORT
No. 500

RURAL WATER FACILITIES

JULY 22, 1965.—Ordered to be printed

Mr. AIKEN, from the Committee on Agriculture and Forestry, submitted the following

REPORT

[To accompany S. 1766]

The Committee on Agriculture and Forestry, to whom was referred the bill (S.1766) to amend the Consolidated Farmers Home Administration Act of 1961 to authorize the Secretary of Agriculture to make or insure loans to public and quasi-public agencies and corporations not operated for profit with respect to water supply and water systems serving rural areas and to make grants to aid in rural community development planning and in connection with the construction of such community facilities, to increase the annual aggregate of insured loans thereunder, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

EXPLANATION OF BILL

In general, this bill would provide for grants and increased loans for water facilities in rural agricultural areas. It would also expand the Farmers Home Administration insured loan authority and provide means of making such loans more attractive to investors through better yields and repurchase agreements.

With the committee amendments, it would—

(1) Replace the present \$500,000 limit on direct loans, and \$1 million limit on insured loans, to any association under section 306(a) of the Consolidated Farmers Home Administration Act with a \$4 million limit on loans and grants to any association under that section. Loans under that section are made for soil conservation, changes in land use, water use and control, drainage, and recreation, primarily serving farmers, ranchers, and other rural residents. Construction grants are not now authorized, but would be authorized by the bill for water systems.

(2) Authorize grants of up to \$25 million per fiscal year to associations to finance water facilities serving rural areas. No grant could exceed either 50 percent of the development cost or that part which is in excess of the association's ability to finance. No grants could be made for facilities to serve areas with populations likely to decline below that for which the facility is designed, facilities with inadequate capacities, or facilities which are not needed or are inconsistent with State, county or municipal development plans.

(3) Authorize grants of up to \$5 million per fiscal year for assistance in preparation of comprehensive plans for development of water systems in rural areas;

(4) Define "rural areas" for the purpose of water systems as areas primarily engaged in or associated with agriculture and not having a population in excess of 5,000;

(5) Increase the limit on loans which may be insured under subtitle A of the Consolidated Farmers Home Administration Act (real estate and similar loans) in any one year from \$200 million to \$450 million;

(6) Repeal the provision prohibiting agreements by the Secretary to purchase such insured loans in less than 3 years from the date of the note;

(7) Permit the Secretary to fix the insurance charge retained by him from borrowers' payments, and the portion of such charge deposited in the insurance fund (instead of at least one-half of 1 percent of the outstanding principal obligation in each case). The portion of the charge deposited in the fund could not exceed one-half of 1 percent of the outstanding principal balance; and

(8) Increase the amount of loans made from the insurance fund which the Secretary can hold at any one time for future sale to \$50 million (from \$25 million).

COMMITTEE HEARINGS

The provisions described in paragraphs (5) through (8) are contained in S. 709 and H.R. 5075, as well as in S. 1766. The committee's subcommittee on agricultural credit and rural electrification conducted hearings in May on S. 709 and H.R. 5075, and those hearings have been printed. The full committee conducted hearings on S. 1766 in June, and those hearings have also been printed. While there was some opposition to the amount of additional authority provided by the bill, and some suggestions that the authority should be expanded to provide grants for individual water systems, or for extension deposits to make the extension of existing systems possible, the bulk of the evidence supported the objectives of H.R. 5075 and S. 1766 without material modification.

One matter which the committee carefully considered was the relationship of water facility grants and loans under the bill to those made by the Community Facilities Administration under title II of the Housing Amendments of 1955, the Housing and Urban Development Act of 1965 (H.R. 7984), and any other available authorizations. S. 1766 is intended to take care of the needs in rural agricultural areas, while Community Facilities Administration activities have been restricted to public bodies. It was made clear when the Housing

and Development Act was passed by the Senate that there would be no duplication of the service rendered by the Farmers Home Administration; and the committee was assured by Mr. Bertsch, Administrator of the Farmers Home Administration, that there would be no duplication of services as a result of passage of S. 1766, as follows at page 61 of the hearings:

No, I see no problem in the duplication of services. Community Facilities Administration is also in the business to aid communities who cannot obtain credit elsewhere. However, the Community Facilities Administration differs from our agency in that they do not have authority to make loans to other than public bodies, and towns and rural water companies who need counseling and guidance in the development and operation of good community water systems. We are staffed to provide this supervision and guidance. Occasionally we receive an application which might qualify for service from the Community Facilities Administration. In such an instance our State director contacts the CFA representative in his State and together they make a determination as to whether Community Facilities Administration or the Farmers Home Administration should aid the applicant. We work very closely together. We accede to the Community Facilities Administration in any instance in which they feel qualified and willing to service the application to completion. We make loans then only to association applicants who cannot qualify for any other credit including credit from the Community Facilities Administration.

The committee also felt that the Farmers Home Administration authority to make loans and grants to associations for water facilities should be limited to areas engaged in or associated with agriculture, and that any assistance to be given to nonagricultural areas should be provided by some agency other than the Department of Agriculture. The committee has recommended an amendment to accomplish that purpose.

NEED FOR THE BILL

All over the United States and particularly in the dairy areas farmers are finding it increasingly difficult to meet the high sanitary requirements for food production with old-fashioned supplies of water.

Not just any water will do these days—it must be clean and chemically acceptable.

Rural communities, some 30,000 of them, need new water systems for food processing, for preparing vegetables for market, for fire protection, for maintaining local industries, and for household uses.

Until this need is met, these communities cannot grow and make their proper contribution to the overall growth of the Nation.

Until this need is met, they cannot absorb their part of the increasing population of our country—estimated at 100 million gain within the next generation.

Many communities where a new water supply would result in increased population and an expanded economy are presently unable to meet the cost by themselves.

The Senate has already approved authority for grants to political bodies to assist in providing water facilities for urban people. Our citizens in rural areas have the same need and are entitled to the same degree of assistance. The Farmers Home Administration has the experience and knowledge necessary to solve the special problems involved in providing water to rural areas.

In its implementation of this law, the committee understands that the Farmers Home Administration will establish guidelines or standards of economic feasibility which will assure the most economical use of the Federal funds available to carry out the purposes of this legislation; and will also establish technical and engineering standards to assure proper construction of the facilities being financed under this law.

The need for the expanded insured loan authority provided by section 2 of the bill is described fully in the report of the Department of Agriculture on S. 709. In addition, the Department has advised the committee that applications for \$84,024,395 in farmownership loans were held over from fiscal 1965 because of lack of funds, and that it estimates new applications in fiscal 1966 for farmownership loans which would be made but for lack of funds at \$345,975,605, or a total demand for farmownership loans for 1966 of \$430 million. It also estimates applications for association loans under section 306 in its present form during fiscal 1966 at \$361,071,850, making a total demand by qualified applicants of over \$791 million.

COMMITTEE AMENDMENTS

The amendments recommended by the committee are as follows:

First, in order to provide the same limit on grants for rural water facilities as is provided by the Housing and Urban Development Act of 1965 for grants for urban water facilities, the committee recommended that the limit be fixed at 50 percent of the development cost instead of 40 percent.

Second, in addition to the percentage limit, the bill as introduced contained two additional limits, based on the ability of the grantee to obtain adequate financing by other means. These imposed much stricter restrictions on political bodies than on other associations so that some witnesses contended grants to political bodies were completely precluded. As the bill was introduced, the grants to a public body would be limited to the smallest of (i) 40 percent, (ii) the amount not recoverable through revenues from users, or (iii) the amount not recoverable through revenues from users and general revenues. The committee recommended that the third limitation be stricken, and that the second limit be amended to permit a grant to cover that part of the potential user revenues which would fall within that part of the debt ceiling of a political body which should be allocated to other necessary improvements.

For example, a town might be legally able to collect a certain amount for a water facility through special assessments, but it then would have to give up needed roads in order to keep within its debt limit. The amendment would permit the town to use a reasonable portion of its debt limit for roads, use a reasonable amount for water facilities, and receive a grant for the balance of the water facility cost.

Third, the bill as introduced prohibited any loan which would cause the outstanding loans and grants to an association to exceed \$4 million. The committee recommended that this provision be amended so that it would also prohibit any grant that would cause the outstanding loans and grants to exceed \$4 million. This is simply a technical amendment to make the \$4 million limit an effective one.

Fourth, the bill as introduced provided for planning grants of up to \$5 million per fiscal year to any grantee. The intention was that this limit would be an overall limit on the total amount which could be granted to all, rather than any, grantee. The committee recommended an amendment to make this clear.

Fifth, the committee recommended an amendment to restrict Farmers Home Administration loans and grants to associations serving areas engaged in or associated with agriculture. At present the Administration may make loans in any rural areas, and has made some in retirement, fishing, and other rural communities. The committee felt that assistance to such areas should be placed in other agencies than the Department of Agriculture.

DEPARTMENTAL VIEWS

Attached are the reports from the Department of Agriculture on S. 709 (the companion to H.R. 5075) and S. 1766.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., February 23, 1965.

ALLEN J. ELLENDER,
*Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request for a report on S. 709, a bill to amend the Consolidated Farmers Home Administration Act of 1961 in order to increase the limitation on the amount of loans which may be insured under subtitle A and for other purposes. S. 709 proposes an increase from \$200 to \$450 million in the annual authorization for the insurance of loans by the Farmers Home Administration. It removes the minimum insurance charge that must be retained by the Secretary and the minimum amount which must be transferred by the Secretary to the insurance fund. It also increases the aggregate amount of loans which may be insured and held in the insurance fund before sale.

We recommend enactment of the bill.

The proposed increase from the \$200 to \$450 million in the aggregate amount of loans that may be insured annually under this act would be required to enable the Department to assist an additional number of eligible applicants for loans authorized under subtitle A of the Consolidated Farmers Home Administration Act of 1961, Public Law 87-128, as amended. Farmownership loans are made to assist family farmers to buy, enlarge, or develop farms and to refinance debts. Soil and water conservation loans are made to individual farmowners or tenants to assist them to improve, protect, and properly use their farmland. Soil and water conservation loans are also made to public and quasi-public bodies and nonprofit associations for the development and use of water and to carry out soil conservation practices and shifts in land use that serve farmers, ranchers, and rural residents.

Additional loan purposes for farmownership and soil and water loans were authorized in 1962 by Public Law 87-703. Farmownership loans were authorized for recreational enterprises on family farms and for fish farming. Important new authorizations were also provided to enable the Farmers Home Administration to make or insure loans to associations for shifts in land use, including the development of recreational facilities. Greater emphasis has been placed on making loans for forestry purposes since that time.

Applications for insured farmownership and soil and water conservation loans to individuals were received during fiscal 1964 at the rate of 3,198 per month, and loans were made at the rate of 1,235 per month. Initial farmownership loans averaged about \$16,965. The demand for insured loans for all purposes in fiscal 1964 resulted in a total commitment of the \$200 million authorization by early May of 1964. In fact, the insurance authorization only permitted the making of loans to approximately 50 percent of the applicants qualifying for loans.

There were 14,837 applications for farmownership and individual soil and water loans on hand June 30, 1964, and this number increased to 16,324 by December 31, 1964. During that period loans were made at over 1,200 per month.

Under Public Law 87-128, a source of credit has been made available to small rural communities in the United States which do not have an adequate and safe water supply. In closely settled rural communities, it is difficult and costly to obtain and develop sources of water supply free from contamination or pollution. In addition to the 15,000 rural towns which do not now have domestic water systems, there are many thousands of fairly heavily settled rural areas in which the use of individual family shallow wells create the hazard of contaminated domestic water supply which can be remedied either by obtaining water from deep wells or the development of a group domestic water system.

The Farmers Home Administration has found that the new water development legislation has created tremendous demands for loans throughout the entire Nation as reflected by the number of applications now on hand. In 1960, soil and water conservation loans to associations were made in only 10 States; in fiscal 1963, they were made in 34 States; and in fiscal 1964, such loans were made in 39 States. These loans have averaged about \$120,000 each. During the first half of this fiscal year, 167 loans have been made for \$19 million and there are applications now on hand for soil and water loans to associations totaling approximately \$118 million.

These loans are available only to individuals and organizations which cannot secure the necessary financing from other credit sources. Credit is usually not available for establishing a new water distribution system by a nonpublic agency. Even where a new system is undertaken by such public bodies as small rural towns and rural water districts they are unable to provide the needed revenue required by commercial-type investors. Hence, if rural areas are to be served with satisfactory water supplies and distribution systems which are essential factors in maintaining our rural health and economy, it will be largely through the credit available under Federal programs.

Of significant importance in addition to the new authorization to serve small towns and rural communities is the authorization to make or insure loans to associations for shifts in land use. Generally, such

shifts in land use will result in a reduction in the production of crops that are in surplus supply. This will enable small towns and nonprofit organizations to obtain loans through the Farmers Home Administration for the purpose of developing recreational facilities, such as community swimming pools, little league baseball fields, fishing lakes, and many other facilities for healthful outdoor recreation which can be enjoyed by families living in the community and surrounding urban areas. The demand for shifts in land use appears to be increasing rapidly as rural communities which have long been in need of revitalization seek to provide important public improvements. A lack of credit for such improvements has plagued rural areas for many decades.

An increase in the authorized amount of insured loans will reduce the need for direct Government loan funds for farmownership and soil and water loans. During fiscal 1964, the obligation of direct funds was discontinued for several months while the \$200 million of insured loan authority was available. Under current money market conditions an increase in the insured loan authorizations would permit meeting the credit needs of more of the applicants for farmownership and soil and water loans with insured funds and would thus effect a savings in sums authorized to be obligated for direct loans. However, the amendment of section 309(f)(1) is needed to effectively operate the proposed increased program of insured loans.

The proposed increase from \$25 to \$50 million in the limitation on the amount of loans that may be made out of the insurance fund, but not sold and insured at any one time, is necessary to prevent undue delays in closing loans for eligible applicants. Under the present \$200 million annual authority to insure loans approximately \$15 million of the \$25 million limitation is encumbered at all times. This encumbrance is the result of a time lapse between the date the insurance fund issues loan checks and the date the notes for such loans are received by the insurance fund. This time elapse is required for closing of loans in the field offices. After the notes are received by the insurance fund they are sold to investors as soon as possible, thereby keeping the loans in the fund at any one time below the present \$25 million limitation. The proposed increase in the annual loan insurance authority from \$200 to \$450 million if enacted would cause the amount of loans that would normally be in the insurance fund to exceed the \$25 million limitation because of the time required between issuance of checks and receipt of notes for sale. Therefore, unless the limitation is increased, loan making activities will be delayed. It would also be desirable to be able to accumulate some notes in the insurance fund so that large orders from investors could be filled more expeditiously. The change to \$50 million would not permit additional loans to be made above the annual legislative ceilings and it would not add any additional cost to the Government.

The amendments of section 308 (a) and (b) and section 309(e) are necessary to assure a continuing availability of private funds for the making of insured loans or the purchase of loans made out of the fund to be sold and insured because of fluctuations in the investment market. Under these changes the yield to the investor could be made comparable to the yield of other obligations on the market. By varying the amount retained by the Secretary out of payments by the borrower, the amount payable to the investor could be increased without sale of the loan at less than the balance due on the obligation at the time of the sale. The amount to be retained would be de-

terminated by the Secretary at the time of loan closing or original sale out of the fund and could be varied upon resale of the loan after repurchase by the Secretary pursuant to the repurchase agreement in the insurance endorsement. The period of nonredemption by the Secretary would be left to the discretion of the Secretary as a further aid in the sale and insurance of loans.

The flexibility proposed in the foregoing changes is essential in order to enable the Secretary to adjust the rate of return to the lender and the period of nonredemption in accordance with the changing conditions of the money market and thus attract the investment of private funds in these insured loans.

The need for funds for salaries and other administrative expenses will be increased for fiscal year 1966. In order to provide for processing loan applications and servicing the increased number of insured loans which would be authorized under the proposed increase of \$250 million, additional personnel will be needed throughout the United States.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

(S) ORVILLE L. FREEMAN,
Secretary.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., June 18, 1965.

HON. ALLEN J. ELLENDER,
*Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request of April 28, 1965, for a report on S. 1766, a bill to amend the Consolidated Farmers Home Administration Act of 1961 to authorize the Secretary of Agriculture to make or insure loans to public and quasi-public agencies and corporations not operated for profit with respect to water supply and water systems serving rural areas and to make grants to aid in rural community development planning and in connection with the construction of such community facilities, to increase the annual aggregate of insured loans thereunder, and for other purposes.

The Department of Agriculture agrees with the objectives of these proposed additional authorizations. Recent experience in working with rural groups throughout the country has indicated a predominant need for certain specific types of community facilities and community planning.

In fiscal year 1962, the Farmers Home Administration was, for the first time, permitted to make and insure loans to associations serving primarily rural residents as well as farmers and ranchers. The increase in applications from rural communities for water system loans has emphasized the wisdom of the Congress in modernizing this program. In many parts of the country the only solution to the rural water problem is a large central system producing clean treated water and distributing it to as many people as possible. These systems can support efficient management and can supply water of the best quality at the most reasonable per capita cost.

Many rural communities applying for water system loans also seek assistance in the planning and construction of community waste

disposal facilities. In fact, in many localities a satisfactory waste disposal system is a prerequisite to a safe water supply.

In administering the present loan program for rural water systems, the Farmers Home Administration has found that many rural communities cannot afford the entire cost of needed water supply and distribution facilities due to either low income of many of the prospective users or the high cost of providing distribution systems, including, where necessary, such installations as water treatment plants, in sparsely settled areas. For the same reasons, it is anticipated that many rural communities could not afford the entire cost of needed waste disposal systems.

Another great need in rural communities is effective firefighting facilities, including reservoirs and other sources of water, fire towers, other structures and equipment for firefighting.

The Farmers Home Administration was authorized in 1962 to make loans to rural communities and other associations of farmers and rural residents for shifts in land use, including the development of recreational facilities. Applications for loans to develop recreational facilities have been received in nearly every State of the Union. In some instances, facilities are needed to assist the economy of the rural communities but do not involve substantial shifts in land use. Such facilities and structures for use as general community centers would meet an urgent need in many rural areas.

It is hoped that the most critical needs outlined above will be met, to a significant extent, under the authorities of the President's proposed Housing and Urban Development Act of 1965 and the Public Works and Economic Development Act now under consideration by the Congress. In addition, in order to assist in more effectively extending the benefits from various existing and newly proposed Federal programs to rural people, the President's 1966 budget request for this Department now pending before the Congress provides for strengthening the capacity of the Cooperative State Extension Service and the Rural Community Development Service.

The President, in his message on agriculture, also requested that this Department and the Bureau of the Budget work with other agencies in reviewing their programs to assure an equitable distribution of benefits between urban and rural areas and propose such administrative and legislative steps as may be appropriate. Pending completion of such review, we believe that action on section 1 of S. 1766 should be deferred.

Section 2(1) would increase from \$200 to \$450 million the aggregate amount of loans that may be insured annually under this act.

This increase will permit the Department to assist an additional number of eligible applicants for loans authorized under subtitle A of the Consolidated Farmers Home Administration Act of 1961, Public Law 87-128, as amended. Farmownership loans are made to assist family farmers to buy, enlarge, or develop farms and to refinance debts. Soil and water conservation loans are made to individual farmowners or tenants to assist them to improve, protect, and properly use their farmland. Soil and water conservation loans are also made to public and quasi-public bodies and nonprofit associations for the development and use of water and to carry out soil conservation practices and shifts in land use that serve farmers, ranchers, and rural residents.

Additional loan purposes for farmownership and soil and water loans were authorized in 1962 by Public Law 87-703. Farmownership loans were authorized for recreational enterprises on family farms and for fish farming. Important new authorizations were also provided to enable the Farmers Home Administration to make or insure loans to associations for shifts in land use, including the development of recreational facilities. Greater emphasis has been placed on making loans for forestry purposes since that time.

Applications for insured farmownership and soil and water conservation loans to individuals were received during fiscal 1964 at the rate of 3,198 per month, and loans were made at the rate of 1,235 per month. Initial farmownership loans averaged about \$16,965. The demand for insured loans for all purposes in fiscal 1964 resulted in a total commitment of the \$200 million authorization by early May in 1964. In fact, the insurance authorization only permitted the making of loans to approximately 50 percent of the applicants qualifying for loans.

There were 14,837 applications for farmownership and individual soil and water loans on hand June 30, 1964, and this number increased to 16,324 by December 31, 1964. During that period loans were made at over 1,200 per month.

Under Public Law 87-128, a source of credit has been made available to small rural communities in the United States which do not have an adequate and safe water supply. In closely settled rural communities, it is difficult and costly to obtain and develop sources of water supply free from contamination or pollution. In addition to the 15,000 rural towns which do not now have domestic water systems, there are many thousands of fairly heavily settled rural areas in which the use of individual family shallow wells creates the hazard of contaminated domestic water supply which can be remedied either by obtaining water from deep wells or the development of a group domestic water system.

The Farmers Home Administration has found that the new water development legislation has created tremendous demands for loans throughout the entire Nation as reflected by 1,429 applications now on hand. In 1960, soil and water conservation loans to associations were made in only 10 States; in fiscal 1963, they were made in 34 States; and in fiscal 1964, such loans were made in 39 States. These loans have averaged about \$120,000 each. During the first half of this fiscal year, 167 loans have been made for \$19 million.

These loans are available only to individuals and organizations which cannot secure the necessary financing from other credit sources. Credit is usually not available for establishing a new water distribution system by a nonpublic agency. Even where a new system is undertaken by such public bodies as small rural towns and rural water districts, they are unable to provide the needed revenue required by commercial-type investors. Hence, if rural areas are to be served with satisfactory water supplies and distribution systems which are essential factors in maintaining our rural health and economy, it will be largely through the credit available under Federal programs.

Of significant importance in addition to the new authorizations to serve small towns and rural communities is the authorization to make or insure loans to associations for shifts in land use. Generally, such shifts in land use will result in a reduction in the production of crops that are in surplus supply. This will enable small towns and non-profit organizations to obtain loans through the Farmers Home

Administration for the purpose of developing recreational facilities, such as community swimming pools, little league baseball fields, fishing lakes, and many other facilities for healthful outdoor recreation which can be enjoyed by families living in the community and surrounding urban areas. The demand for shifts in land use appears to be increasing rapidly as rural communities which have long been in need of revitalization seek to provide important public improvements. A lack of credit for such improvements has plagued rural areas for many decades.

An increase in the authorized amount of insured loans will reduce the need for direct Government loan funds for farmownership and soil and water loans. During fiscal 1964, the obligation of direct funds was discontinued for several months while the \$200 million of insured loan authority was available. Under current money market conditions, an increase in the insured loan authorizations would permit meeting the credit needs of more of the applicants for farmownership and soil and water loans with insured funds and would thus effect a saving in sums authorized to be obligated for direct loans. However, to effectively operate the proposed increased program of insured loans, the present limit of \$25 million of loans made from the fund and not disposed of at any one time should be increased to \$50 million. Section 2(c) of the bill would accomplish this by changing section 309(f)(1) of the act by increasing the figure from "25,000,000" to "50,000,000".

The proposed increase from \$25 to \$50 million in the limitation on the amount of loans that may be made out of the insurance fund, but not sold and insured at any one time, is necessary to prevent undue delays in closing loans for eligible applicants. Under the present \$200 million annual authority to insure loans approximately \$15 million of the \$25 million limitation is encumbered at all times. This encumbrance is the result of a time elapse between the date the insurance fund issues loan checks and the date the notes for such loans are received by the insurance fund. This time elapse is required for closing of loans in the field offices. After the notes are received by the insurance fund they are sold to investors as soon as possible, thereby keeping the loans in the fund at any one time below the present \$25 million limitation. The proposed increase in the annual loan insurance authority from \$200 to \$450 million, if enacted, would cause the amount of loans that would normally be in the insurance fund to exceed the \$25 million limitation because of the time required between issuance of checks and receipt of notes for sale. Therefore, unless the limitation is increased, loan making activities will be delayed. It would also be desirable to be able to accumulate some notes in the insurance fund so that large orders from investors could be filled more expeditiously. The change to \$50 million would not permit additional loans to be made above the annual legislative ceilings and it would not add any additional cost to the Government.

Section 2 (2) and (3) would change the act as follows: (1) section 308 would be amended in clause (a) by striking out "except that no agreement shall provide for purchase by the Secretary at a date sooner than three years from the date of the note"; (2) by striking clause (b), section 308, and inserting in lieu thereof "(b) may retain out of payments by the borrower a charge at a rate specified in the insurance agreement applicable to the loan."; and (3) section 309(e) of such act would be amended by striking out "such portion of the charge

collected in connection with the insurance of loans at least equal to a rate of one-half of 1 per centum per annum on the outstanding principal obligations and the remainder of such charge" and inserting in lieu thereof "all or a portion, not to exceed one-half of 1 per centum of the unpaid principal balance of the loan, of any charge collected in connection with the insurance of loans; and any remainder of any such charge."

These changes are necessary to assure a continuing availability of private funds for the making of insured loans or the purchase of loans made out of the fund to be sold and insured because of fluctuations in the investment market. Under these changes the yield to the investor could be made comparable to the yield of other obligations on the market. By varying the amount retained by the Secretary out of payments by the borrower, the amount payable to the investor could be increased without sale of the loan at less than the balance due on the obligation at the time of the sale. The amount to be retained would be determined by the Secretary at the time of loan closing or original sale out of the fund and could be varied upon resale of the loan after repurchase by the Secretary pursuant to the repurchase agreement in the insurance endorsement. The period of nonredemption by the Secretary would be left to the discretion of the Secretary as a further aid in the sale and insurance of loans.

The flexibility proposed in the foregoing changes is essential in order to enable the Secretary to adjust the rate of return to the lender and the period of nonredemption in accordance with the changing conditions of the money market and thus attract the investment of private funds in these insured loans.

The need for funds for salaries and other administrative expenses for the broadened insured loan program will be increased for fiscal year 1966. In order to provide for processing loan applications and servicing the increased number of insured loans which would be authorized under the proposed increase of \$250 million, additional personnel will be needed throughout the United States.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

(S) ORVILLE L. FREEMAN.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961

* * * * *

Sec. 306. (a) [The Secretary also is authorized to make or insure loans to associations, including corporations not operated for profit and public and quasi-public agencies, to provide for the application or establishment of soil conservation practices, shifts in land use including the development of recreational facilities, the conservation,

development, use, and control of water and the installation or improvement of drainage facilities, all primarily for serving farmers, ranchers, farm tenants, farm laborers, and rural residents, and to furnish financial assistance or other aid in planning projects for such purposes. No such loans shall be made or insured which would cause an association's unpaid principal indebtedness under this section and the Act of August 28, 1937, as amended, to exceed \$500,000 in the case of direct loans and \$1,000,000 in the case of insured loans at any one time.】 (1) *The Secretary is also authorized to make or insure loans to associations, including corporations not operated for profit, and public and quasi-public agencies to provide for the application or establishment of soil conservation practices, shifts in land use, the conservation, development, use, and control of water, and the installation or improvement of drainage facilities, and recreational developments, all primarily serving farmers, ranchers, farm tenants, farm laborers, and other rural residents, and to furnish financial assistance or other aid in planning projects for such purposes.*

(2) *The Secretary is authorized to make grants aggregating not to exceed \$25,000,000 in any fiscal year to such associations to finance specific projects for works for the storage, treatment, purification, or distribution of water in rural areas. The amount of any grant made under the authority of this paragraph shall not exceed the lesser of (i) 50 per centum of the development cost of that portion of the facility necessary to enable the project to serve the area which can be feasibly served by the facility and to adequately serve the reasonable foreseeable growth needs of the area, or (ii) that portion of the development costs which are above the probable ability of the association to repay a loan for such purposes from income or assessments levied at a rate or charge for service within the ability of a majority of the users to accept and pay for such service and maintain a reasonable standard of living: Provided, however, That in determining the ability of a public body to repay, consideration shall be given to any applicable legal debt ceiling or tax or assessment limits and to any other improvements contemplated to be financed within those limits.*

(3) *No grant shall be made under paragraph 2 of this subsection in connection with any facility unless the Secretary determines that the project (i) will serve a rural area which is not likely to decline in population below that for which the facility was designed, (ii) is designed and constructed so that adequate capacity will be or can be made available to serve the present population of the area to the extent feasible and to serve the reasonable foreseeable growth needs of the area, or (iii) is necessary for orderly community development consistent with a comprehensive community water development plan of the rural area and not inconsistent with any planned development under State, county, or municipal plans approved as official plans by competent authority for the area in which the rural community is located. Until October 1, 1968, the Secretary may make grants prior to the completion of the comprehensive plan, if the preparation of such plan has been undertaken for the area.*

(4) *The term "development cost" means the cost of construction of a facility and the land, easements, and rights-of-way, and water rights necessary to the construction and operation of the facility.*

(5) *No loan or grant shall be made under this subsection which would cause the unpaid principal indebtedness of any association under this Act and under the Act of August 28, 1937, as amended, together with*

the amount of any assistance in the form of a grant to exceed \$4,000,000 at any one time.

(6) The Secretary may make grants aggregating not to exceed \$5,000,000 in any fiscal year to public bodies or such other agencies as the Secretary may determine having authority to prepare official comprehensive plans for the development of water systems in rural areas which do not have funds available for immediate undertaking of the preparation of such plan.

(7) Rural areas, for the purpose of water systems, shall include any area primarily engaged in or associated with agriculture and not having a population in excess of five thousand inhabitants.

(b) The service provided or made available through any such association shall not be curtailed or limited by inclusion of the area served by such association within the boundaries of any municipal corporation or other public body, or by the granting of any private franchise for similar service within such area during the term of such loan; nor shall the happening of any such event be the basis of requiring such association to secure any franchise, license, or permit as a condition to continuing to serve the area served by the association at the time of the occurrence of such event.

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SEC. 308. Loans under this subtitle may be insured by the Secretary, aggregating not more than **[\$200,000,000]** *\$450,000,000* in any one year, whenever funds are advanced or a loan is purchased by a lender other than the United States. In connection with insurance of loans, the Secretary—

(a) is authorized to make agreements with respect to the servicing of loans insured hereunder and to purchase such loans on such terms and conditions as he may prescribe, **[except that no agreement shall provide for purchase by the Secretary at a date sooner than three years from the date of the note;]** and

[(b) shall retain out of payments by the borrower a charge at a rate determined by the Secretary from time to time equivalent to not less than one-half of 1 per centum per annum on the principal unpaid balance of the loan.]

(b) may retain out of payments by the borrower a charge at a rate specified in the insurance agreement applicable to the loan.

SEC. 309. (a) The fund established pursuant to section 11 (a) of the Bankhead-Jones Farm Tenant Act, as amended, shall hereafter be called the Agricultural Credit Insurance Fund and is hereinafter in this subtitle referred to as the "fund". The fund shall remain available as a revolving fund for the discharge of the obligations of the Secretary under agreements insuring loans under this subtitle and loans and mortgages insured under prior authority.

(b) Moneys in the fund not needed for current operations shall be deposited in the Treasury of the United States to the credit of the fund or invested in direct obligations of the United States or obligations guaranteed by the United States. The Secretary may purchase with money in the fund any notes issued by the Secretary to the Secretary of the Treasury for the purpose of obtaining money for the fund.

(c) The Secretary is authorized to make and issue notes to the Secretary of the Treasury for the purpose of obtaining funds necessary for discharging obligations under this section and for authorized expenditures out of the fund. Such notes shall be in such form and

denominations and have such maturities and be subject to such terms and conditions as may be prescribed by the Secretary with the approval of the Secretary of the Treasury. Such notes shall bear interest at a rate fixed by the Secretary of the Treasury, taking into consideration the current average market yield of outstanding marketable obligations of the United States having maturities comparable to the notes issued by the Secretary under this subtitle. The Secretary of the Treasury is authorized and directed to purchase any notes of the Secretary issued hereunder, and, for that purpose, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purpose for which such securities may be issued under such Act, as amended, are extended to include the purchase of notes issued by the Secretary. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes shall be treated as public debt transactions of the United States.

(d) Notes and security acquired by the Secretary in connection with loans insured under this subtitle and under prior authority shall become a part of the fund. Notes may be held in the fund and collected in accordance with their terms or may be sold by the Secretary with or without agreements for insurance thereof at the balance due thereon, or on such other basis as the Secretary may determine from time to time. All net proceeds from such collections, including sales of notes or property, shall be deposited in and become a part of the fund.

(e) The Secretary shall deposit in the fund [such portion of the charge collected in connection with the insurance of loans at least equal to a rate of one-half of 1 per centum per annum on the outstanding principal obligations and the remainder of such charge] *all or a portion, not to exceed one-half of 1 per centum of the unpaid principal balance of the loan, of any charge collected in connection with the insurance of loans; and any remainder of any such charge shall be available for administrative expenses of the Farmers Home Administration, to be transferred annually and become merged with any appropriation for administrative expenses.*

(f) The Secretary may utilize the fund—

(1) To make loans which could be insured under this subtitle whenever the Secretary has reasonable assurance that they can be sold without undue delay, and may sell and insure such loans. The aggregate of the principal of such loans made and not disposed of shall not exceed [\$25,000,000] \$50,000,000 at any one time;

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